



Presentation to CalPERS Board

October 15, 2007

Overview

- Primary Investment Thesis
 - The Central Valley Fund (CVF), a \$55M investment fund, seeks to provide mezzanine capital to small & mid-size businesses to finance later stage growth, acquisitions, ownership transitions and recapitalizations
- Geographic Focus: Greater Central Valley (Redding to Bakersfield)
 - CVF will also consider investments in other areas of California
- Industry Focus
 - Manufacturing
 - Distribution
 - Service
 - Healthcare

Central Valley Economic Drivers

- The California Central Valley is the fastest growing demographic region of the state. The projected population growth is 2.75% annually through 2020 - Twice the state average and over three times the national average.
- Presidential Executive Order #13173 (October 2000) was established to coordinate the efforts of 18 federal agencies to allocate incremental resources to motivate economic development in the Central San Joaquin Valley.
- According to a recent ranking published by *Inc* magazine (March 2004), four of the Central Valley cities are among the “Top 25 Cities for Doing Business in America” – Fresno #4, Bakersfield #5, Modesto #10 and Stockton #11.
- Sacramento and the Chico-Paradise MSAs, both from the Sacramento Valley, were ranked by the Milken Institute (September 2003) among the “20 Best Performing Cities” in the country.
- The Central Valley has a long tradition in developing traditional businesses that support manufacturing and agriculture with over 5,000 businesses in our target market.
- The California Central Valley has a population of 5.8M, equivalent to the population of the 27th largest state, and has a land mass equivalent to the Mid-Atlantic states. The contiguous MSAs include the San Francisco Bay Area (6.6M), the Los Angeles Metro Area (10.5M) and the San Diego MSA (4.1M).
- The unavailability of alternative sources of financing, especially mezzanine debt or equity, has limited the nature and level of expansion of some Central Valley businesses.

CVF Investment Criteria

- CVF has established general criteria to identify potential opportunities:
 - ❑ Companies in existence for at least 3 years;
 - ❑ Companies with revenues greater than \$5M;
 - ❑ Companies with cash flow (i.e., EBITDA) in excess of \$1M;
 - ❑ Companies with a strong management team; and
 - ❑ Companies in California and primarily located in CVF's target market

CVF Investment Structure

- Mezzanine capital
 - Subordinated debt or preferred equity
 - Investment tailored to meet a company's specific needs
- Investment size of \$1M to \$5M
- Term of 5 to 7 years
- Target Return – 18-25% IRR
 - Subordinated debt instrument (traditional debt, preferred stock, etc.) with a current return of 10-14%
 - Add return through equity component in the form of detachable warrants or deferred interest payments
 - CVF underwrites total return commensurate with deal risk
- Board seat or observation rights
 - CVF does not seek control or an active management role
 - CVF acts as a financial partner and strategic advisor

Deal Support

- CVF as a transaction facilitator
 - ❑ CVF provides local commercial banks / senior lenders with financing packages that make available needed capital
 - ❑ Mezzanine capital will cover the “air balls” most lenders will not finance
 - ❑ CVF can help a lender create new or maintain existing client relationships that otherwise may be lost
 - ❑ CVF has a deep and experienced management team
 - ❑ CVF professionals are based in the Central Valley

Deal Support

■ Macro Benefits

- ❑ Provide growth capital to CV companies
- ❑ Provide a means for transfer of ownership
- ❑ Provide M&A financing
- ❑ Provide support as a trusted financial advisor
- ❑ Create more stakeholder wealth
- ❑ Create more jobs

Central Valley Deal Environment

- Inconsistent presence of institutional capital providers
- Lack of familiarity with mezzanine capital / private equity
- Lack of professional deal intermediaries
- Relationship vs. transactional market
- Longer deal timelines
- Localized – Central Valley is a series of markets

Market/ Deal Flow Development

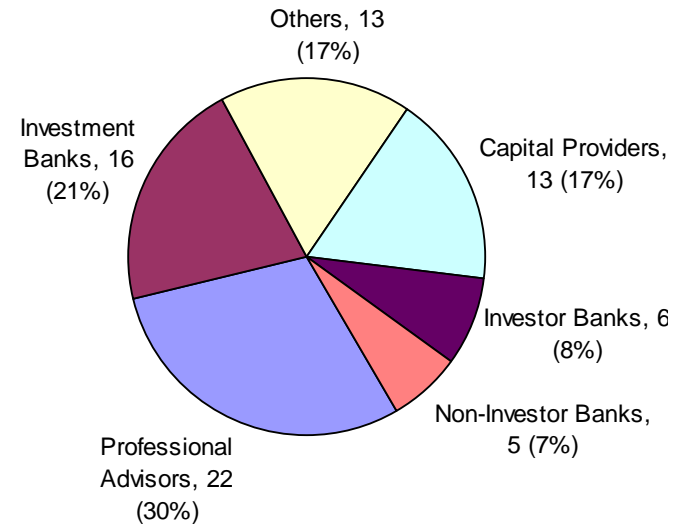
- CVF has a leading / founding role in regional conferences
 - Stockton
 - Fresno
 - Bakersfield
- Membership in local boards / industry associations
 - Co-founder San Joaquin Valley YPO chapter
- Marketing materials / newsletter
- Consistent calling on local banks, law firms, CPAs & entrepreneurs
- Small, focused workshops with the above
- Introducing intermediaries to the Central Valley

2006 Deal Overview

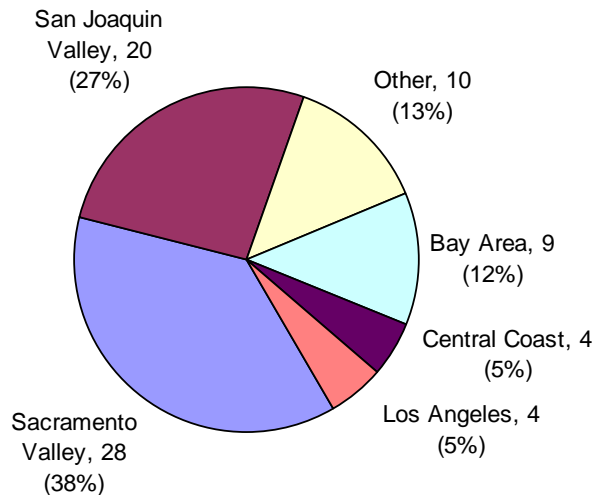
■ 2006 Deal Summary

- 75 deals reviewed
- Deal size was ~\$3.5M
- 11 term sheets issued
- 3 deals closed

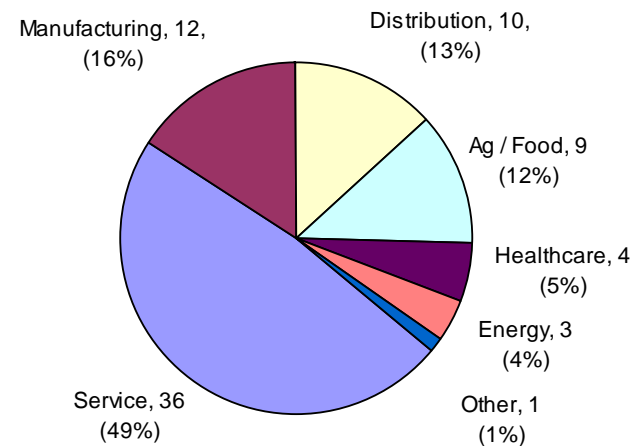
Deals by Referral Source



Deals by Geography



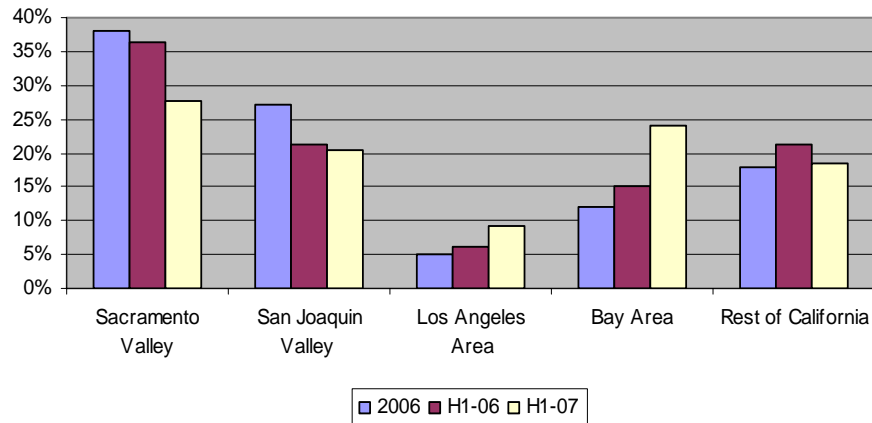
Deals by Industry



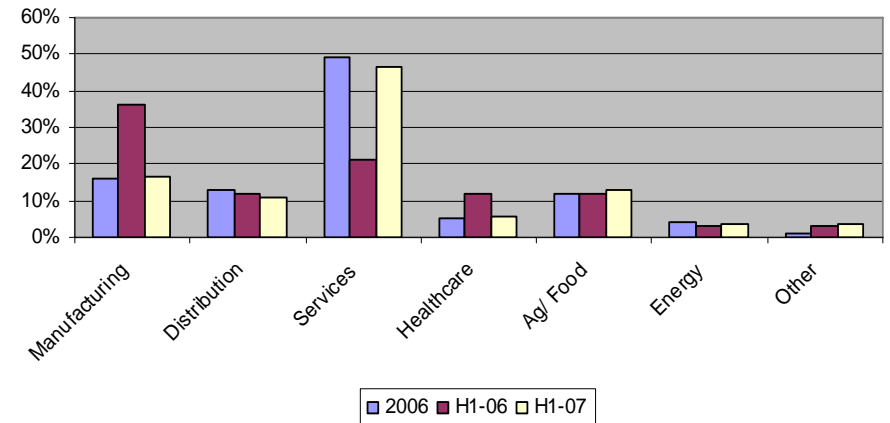
2007 (6 mos.) Deal Overview

- 2007 H1 Deal Summary
 - 54 deals reviewed
 - 8 term sheets issued
 - 2 deals closed, 2 in process
 - Increase in deal flow from commercial and investment banks

Deal Source by Geography



Deals by Industry



Deal Overview

2006

- 11 term sheets issued
- 6 Central Valley / 5 “other California”
- 3 deals closed
- 2 “other California” / 1 Central Valley

2007 (6 mos.)

- 8 term sheets issued
- 6 Central Valley / 2 “Other California”
- 3 deals closed or in due diligence
- All deals located in Central Valley

Completed Transactions

2006

- **Tinmar Holdings (dba Endocenter Partners) - \$2.5 Million**
 - Bay Area / Central Valley based endoscopy and ophthalmology ambulatory surgical center developer and operator.
- **Mulberry Neckwear - \$2.75 Million**
 - Richmond based (LMI) neck-tie manufacturer.
- **MuniServices Company - \$4.5 Million**
 - Management led buyout of Fresno based municipal tax audit and revenue discovery services company.

2007

- **Mulberry Neckwear - \$250 Thousand**
 - Additional investment for working capital needs.
- **Administrative Systems, Inc. - \$1.65 Million**
 - Sacramento based provider of employee benefit disbursement solutions.
- **D&D Premier Pump - \$3.3 Million (in process)**
 - Sacramento based distributor of water pumps and plumbing supplies.
- **Delta Horseshoe - \$2.2 Million (in process)**
 - Rocklin based distributor of farrier supplies.

Conclusions

Positives

- Central Valley deal flow solid and increasing
- Central Valley deal quality improving
- Pricing and deal structure environment is favorable
- Market outreach / education having an impact

Challenges

- Deals take longer
- CVF professionals often play role of investment banker
- Smaller deals are more credit / management intensive
- Lack of seed capital to build small companies

Appendix



CVF Management Team

- José Blanco
 - José Blanco brings over 26 years of experience in product management, operations, financial management and direct investments to the Central Valley Fund. Formerly, Mr. Blanco served as a Regional Vice President and Chief Investment Officer at AIG Investment Corporation (AIGIC).
- Dan Jessee
 - Dan Jessee has over 15 years of private equity investment and fund management experience, most of which is directly related to the types of investments that the Fund proposes to make. Mr. Jessee was a Principal with Stonehenge Partners. Stonehenge currently manages \$475 million in committed private mezzanine and equity capital. Formerly, Mr. Jessee was the Vice Chairman of Banc One Capital Markets.
- Ed McNulty
 - Ed McNulty has over 24 years of corporate finance, investment, turnaround, and general advisory experience. He has held various positions in merchant and investment banking at the Chase Manhattan Bank and was one of the founding partners of the ACI Capital America Fund, LP, a mezzanine debt and equity fund headquartered in New York City. Before joining CVF, Mr. McNulty was a Managing Director at Pacific Resources, Inc., a Central Valley based corporate advisory firm.
- Brad Triebsch
 - Brad Triebsch has more than a 15-year record of proven entrepreneurial ability in taking companies from concept to profitability. Mr. Triebsch served as a public finance investment banker for Westhoff, Cone and Holmstedt. Previously, Mr. Triebsch worked with former Los Angeles Dodger personnel on a successful turnaround for a sports medicine company. Prior to that, Mr. Triebsch served as VP of Wholesale Strategy for an e-commerce company principally engaged in providing outsourced human resources services to small- and mid-size businesses which was successfully sold to a public company. Mr. Triebsch is a Turlock native.

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